

AUDITING PROCEDURES REPORT

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Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Beaverton	County Gladwin
Audit Date March 31, 2004	Opinion Date July 15, 2004	Date Accountant Report Submitted to State: September 30, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Burnside & Lang, P.C.			
Street Address 5915 Eastman Avenue, Suite 100	City Midland	State MI	ZIP 48640
Accountant Signature <i>Burnside & Lang P.C. - Mark K... CR GSP</i>			

**CITY OF BEAVERTON
GLADWIN COUNTY, MICHIGAN**

**AUDITED FINANCIAL STATEMENTS
MARCH 31, 2004**

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Independent Auditors' Report

Members of the City Council
City of Beaverton
Gladwin County, Michigan

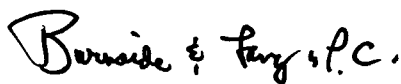
We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Beaverton, Gladwin County, Michigan (the "City"), as of and for the year ended March 31, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Beaverton, Gladwin County, Michigan, as of March 31, 2004, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in footnote 13, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No.34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, as of March 31, 2004.

The management's discussion and analysis and budgetary comparison information on pages 2 through 8 and 36 through 38, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Midland, Michigan
July 15, 2004

CITY OF BEAVERTON

CITY COUNCIL

Scott Govitz	Mayor
Lois Mitchell	Councilman, Ward 1
Patrick Smith	Councilman, Ward 1
Nila Frei	Councilman, Ward 2
Terry Patsey	Councilman, Ward 2
Jerry Malosh	Councilman, Ward 3
Norma Jean Hughes	Councilman, Ward 3

MANAGEMENT

Stephen Guile	City Manager
Beverley Dodd Miller	City Clerk
Tena Andrist	City Treasurer

CITY POPULATION-2000 CENSUS
1,106

STATE EQUALIZED VALUE-2003
\$18,934,750

STATE TAXABLE VALUE-2003
\$16,192,878

**CITY OF BEAVERTON
GLADWIN COUNTY, MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
March 31, 2004**

As management of the City of Beaverton we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended March 31, 2004.

Financial Highlights

- The net assets of the City were reduced at the close of the fiscal year ending March 31, 2004 by \$127.7 thousand. This was due primarily to the completion of construction on the gravel streets in the City and the completion of the reconstruction of Glidden Road.
- During the year, the City's expenses were \$171.4 thousand more than the \$605.3 thousand generated in property taxes and other revenues for the governmental activities. Revenues exceeded expenses by \$1.9 thousand in the previous year.
- The City's net assets in its business-type activities increased \$43.7 thousand during the year, compared to an increase of \$105.9 thousand in the previous year.
- As of the close of the fiscal year ended March 31, 2004, the City's unrestricted net assets in its governmental activities was \$138.7 thousand or approximately 18% of current year expenses. Unrestricted net assets were \$226.5 thousand or approximately 29% of current year expenses in the previous year.

Overview of the Financial Statements

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.

The *governmental funds* statements tell how general government services like public safety were financed in the short term as well as what remains for future spending.

**CITY OF BEAVERTON
GLADWIN COUNTY, MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
March 31, 2004**

Proprietary fund statements offer short and long-term financial information about the activities the government operated like businesses, such as the hydroelectric, water and sewer systems.

Fiduciary fund statements provide information about financial relationships - like the tax collection activities of the City.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

The City has three kinds of funds:

- Governmental funds - Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information in the notes to the financial statements.
- Proprietary funds - Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long and short-term financial information. In fact, the City's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows. We use internal service funds (the other kind of proprietary fund) to report activities that provide supplies and services for the City's other programs and activities - such as the City's DPW Equipment Fund.
- Fiduciary funds - The City is the agent, or fiduciary, for tax collection purposes. The City is responsible for the collection and proper remittance of all property taxes. The City's fiduciary activity is reported in a separate statement of fiduciary net assets. We exclude this activity from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

**CITY OF BEAVERTON
GLADWIN COUNTY, MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
March 31, 2004**

Financial Analysis of the City as a Whole

The net assets of the City were reduced at the close of the fiscal year ending March 31, 2004 by \$127.7 thousand. This is primarily due to the completion of the reconstruction of Glidden Road. However, looking at the net assets and net expenses two different stories emerge. While net assets declined in the current fiscal year, net assets will increase next year based on the establishment of a value for City's streets. Additionally, governmental activities expenses increased by \$7.3 thousand. Business-type activity expenses and transfers increased \$168 thousand. In a condensed format, the table below shows a comparison of the net assets (in thousands of dollars) as of the current date to the prior year:

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Current Assets	\$ 522.7	\$ 923.7	\$ 357.5	\$ 506.7	\$ 880.2	\$ 1,430.4
Noncurrent Assets	448.4	451.7	4,284.1	4,126.4	4,732.5	4,578.1
Total Assets	971.1	1,375.4	4,641.6	4,633.1	5,612.7	6,008.5
Liabilities	(550.2)	(783.1)	(1,323.3)	(1,358.5)	(1,873.5)	(2,141.6)
Net Assets						
Invested in Capital Assets	(21.6)	(48.3)	2,915.8	2,844.4	2,894.2	2,796.1
Restricted	303.8	414.1	158.5	158.5	462.3	572.6
Unrestricted	138.7	226.5	244.0	271.7	382.7	498.2
Total Net Assets	<u>\$ 420.9</u>	<u>\$ 592.3</u>	<u>\$3,318.3</u>	<u>\$ 3,274.6</u>	<u>\$3,739.2</u>	<u>\$ 3,866.9</u>

Changes in Net Assets

The City's total revenues (excluding a 2004 federal grant of \$107.8 thousand and a 2003 special assessment of \$163.3 thousand) decreased \$5.0 thousand during the fiscal year. Approximately one quarter of the City's revenue comes from property taxes. The remaining revenue comes from state aid, user fees, and water, sewer and hydroelectric utility sales. The impact of state revenue cuts and the slow growth of property taxes is hoped to be off set by the growth in revenue produced by the hydroelectric fund.

**CITY OF BEAVERTON
GLADWIN COUNTY, MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
March 31, 2004**

The following table shows the changes of the net assets (in thousands of dollars) as of the current date to the prior year:

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Program Revenues						
Charges for services	\$ 81.6	\$ 57.8	\$ 502.4	\$ 452.3	\$ 584.0	\$ 561.2
Operating Grants & Contributions	4.5	-	-	-	4.5	-
Capital Grants & Contributions	-	-	107.8	-	107.8	-
General Revenues						
Property Taxes and Fees	274.7	280.3	-	-	274.7	280.3
State Aid	234.9	249.7	-	-	234.9	249.7
Interest Earnings	.9	2.7	1.1	2.1	2.0	4.8
Miscellaneous	8.7	180.8	-	51.1	8.7	180.8
Transfers	-	-	-	-	-	-
Total Revenues	605.3	771.3	611.3	505.5	1,216.6	1,276.8
Program Expenses						
General Government	203.5	268.4	-	-	203.5	268.4
Public Safety	123.0	114.2	-	-	123.0	114.2
Public Works	359.0	275.6	-	-	359.0	275.6
Recreation & Culture	69.9	96.2	-	-	69.9	96.2
Interest & Fiscal Charges	21.3	15.0	64.6	60.6	85.9	75.6
Hydroelectric	-	-	106.1	105.2	106.1	105.2
Sewer	-	-	191.3	156.2	191.3	156.2
Water	-	-	144.0	77.6	144.0	77.6
Transfers	-	-	61.6	-	61.6	-
Total Expenses	776.7	769.4	567.6	399.6	1,344.3	1,169.0
Change in Net Assets	\$ (171.4)	\$ 1.9	\$ 43.7	\$ 105.9	\$ (127.7)	\$ 107.8

Governmental Activities

Revenues for the City governmental activities excluding gravel streets remained relatively unchanged. Loss in property tax revenue and state revenue sharing were off set by increases in proprietary funds, fees charged and rent collected.

**CITY OF BEAVERTON
GLADWIN COUNTY, MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
March 31, 2004**

The City's management took the following steps to stabilize or lower expenses to help offset the continued slow decline in revenues.

- Changing employee coverage, to a PPO raising prescription deductible and becoming self insuring for optical and dental, and reduced health care costs.
- Canceling law enforcement contact with County Sheriff and restarting local police department. This action reduced a proposed \$50,000 cost increase for the Sheriff's contract and stabilized the budget impact of providing law enforcement activities.
- Improved reporting and bookkeeping procedures, which reduced duplication of effort, reduced late fees and better-informed city decision makers as to the status of city funds.
- Paid most interfund obligations, giving the City a more realistic view of each fund.
- Reduced compensatory time by establishing a policy related to accumulation and use. This reduced substitution of time by employees to cover various work tasks.

Proprietary funds

Revenues from the City's business-type activities increased \$50.1 thousand. The factors for the increase included:

- One full year of revenue produced by our renovated hydroelectric facility. Revenue generated by the facility has eliminated the debt caused by the repairs within two years.
- City personnel have replaced all old water meters with new meters thus increasing the revenue to the water and sewer systems.

Financial Analysis of the City's Funds

As the city completed its fiscal year, its governmental funds reported a combined fund balance of \$442.5 thousand. This represents a \$199.4 thousand fund balance reduction from the last fiscal year. This decrease is primary due to:

- \$164.2 thousand spent from the gravel streets bond issue to pay for completion of the paving of local streets and current year debt service.
- \$24.6 thousand spent to replace surface area on Glidden Road, a major street that carries industrial and other vehicular traffic.
- \$28.2 thousand spent to set up our new local police department.

**CITY OF BEAVERTON
GLADWIN COUNTY, MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
March 31, 2004**

General Fund Budgetary Highlights

Over the course of the year, the City Council revised the budget several times. These budget amendments fall into two categories.

- Budget amendments in October and February to adjust revenue and expenditure figures.
- Transfer of monies from one fund to another to adjust fund shortfalls.

With these adjustments, actual general fund expenditures were \$.3 thousand more than budgeted expenditures. Resources available were also reduced based on lower than expected revenue sharing and tax revenues.

The City's ending General Fund balance was reduced by \$28.2 thousand. However, the \$195.0 thousand remaining fund balance is 35.2% of actual, current year expenditures. This represents a more than adequate cushion against any unexpected expenditures in the General fund.

Capital Assets

At March 31, 2004, the City had a net investment of \$4,626.2 thousand in a broad range of capital assets, including police equipment, buildings, park facilities, and water and sewer infrastructure. This amounts to a net increase of \$48.2 thousand over the previous year. These figures do not reflect the value of the City's street network. The City has invested \$385.0 thousand in street improvements during the last two years. During the next fiscal year the street inventory will be completed and its value will be added to the City's statement of net assets.

Long Term Debt

At year end the city had approximately \$1,779.0 thousand in bonds and notes outstanding. This is a reduction of \$64.5 thousand from the last fiscal year. Bonded indebtedness is the result of bonds sold for the wastewater treatment plant improvements, water system expansions, and the gravel roads project.

Economic Factors and Next Years Budget

- The level in state revenue sharing will continue to fall.
- Health care costs are expected to rise by 12%. Costs have been manageable because of the ability to spread most of the increase across all expense categories.

**CITY OF BEAVERTON
GLADWIN COUNTY, MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
March 31, 2004**

- General property taxes will continue to slightly decline while costs continue to rise. The combination of the Headlee Amendment and the effects of Proposition A are contributing to the continuing decline of the millage rate, which off sets any actual growth. The combination of Proposition A and Headlee Amendment continue to erode our millage rate and the age of the population handicaps the City in increasing taxable value. At some point in the future, we may have to go to the voters and ask for a rollback of the millage reduction.
- DDA property tax capture, while stagnant in fiscal 2004, will continue to grow based on industrial and commercial expansion. More administrative and project costs are being funded by the DDA, where applicable.

Funding for most City programs are under constant scrutiny. Reduction in employee hours continues to be a real possibility in addition to temporary layoffs. Each budget category will be monitored and adjusted if necessary. There are undesignated revenues generated by the hydroelectric facility that can be transferred into the General Fund to help offset some budget shortfalls.

The budget for fiscal 2005 calls for an increase in recreational fees of 4%. This is an attempt to bring the user fees in line with expenses. We have a new labor agreement defining pay structure and compensatory time, which will save money and absenteeism in the long run. We have signed contracts with all supervisors which defines job responsibilities and will eliminate overtime, thus saving money.

This is an important point considering the current impact of state revenue sharing and other funding sources.

Contacting the City Management

This financial report is intended to provide our citizens, customers, investors and creditors with a general overview of the City' finances. If you have questions about this report or need additional information, contact the City Manager, at P.O. Box 477, Beaverton, Michigan 48612-0477, call (989) 435-3511, or e-mail at beaverton@ejourney.com.

CITY OF BEAVERTON
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
March 31, 2004

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Downtown Development Authority
ASSETS				
Cash and cash equivalents	\$ 246,249	\$ 170,338	\$ 416,587	\$ 60,298
Accounts receivable, net	6,760	87,829	94,589	-
Taxes receivable, net	33,735	-	33,735	3,573
Assessments receivable, net	143,878	-	143,878	-
Due from other funds	39,007	-	39,007	-
Due from other governmental units	16,450	-	16,450	-
Inventory	-	10,645	10,645	-
Prepaid items	5,205	2,394	7,599	1,093
Restricted cash	-	158,500	158,500	-
Capital assets:				
Land	192,484	102,715	295,199	-
Buildings and improvements, net	243,275	-	243,275	-
Equipment, net	12,654	499	13,153	-
Infrastructure, net	-	4,074,598	4,074,598	-
Total capital assets	448,413	4,177,812	4,626,225	-
Total assets	939,697	4,607,518	5,547,215	64,964
LIABILITIES				
Accounts payable	7,499	6,489	13,988	2,219
Accrued expenses	14,400	3,738	18,138	-
Due to other funds	-	17,030	17,030	1,468
Due to other governmental units	8,232	-	8,232	-
Deposits and other liabilities	18,682	-	18,682	-
Long-term liabilities:				
Portion due or payable within one year:				
Bonds and contracts payable	30,000	20,000	50,000	10,000
Portion due or payable after one year:				
Bonds and contracts payable	440,000	1,242,000	1,682,000	320,000
Total liabilities	518,813	1,289,257	1,808,070	333,687
NET ASSETS				
Invested in capital assets, net of related debt	(21,587)	2,915,812	2,894,225	-
Restricted for:				
Streets, roads and bridges	108,736	-	108,736	-
Debt service	157,987	158,500	316,487	-
Capital projects	37,090	-	37,090	-
Unrestricted	138,658	243,949	382,607	(268,723)
Total net assets	\$ 420,884	\$ 3,318,261	\$ 3,739,145	\$ (268,723)

The accompanying notes are an integral part of these financial statements.

CITY OF BEAVERTON
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
 Year Ended March 31, 2004

Activities:	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	
					Governmental Activities	Business-Type Activities
Governmental:						
General government	\$ 204,654	\$ 23,110	\$ -	\$ -	\$ (181,544)	\$ (181,544)
Public safety	123,016	4,500	4,480	-	(114,036)	(114,036)
Public works	358,974	32,345	-	-	(326,629)	(326,629)
Recreation and culture	69,874	21,688	-	-	(48,186)	(48,186)
Interest and fiscal charges	21,463	-	-	-	(21,463)	(21,463)
Total governmental activities	777,981	81,643	4,480	-	(691,858)	(691,858)
Business-type:						
Electric utility	106,052	131,411	-	-		\$ 25,359
Sewer	244,230	239,063	-	-		(5,167)
Water	155,744	131,956	-	107,797		84,009
Total business-type activities	506,026	502,430	-	107,797		104,201
Total Primary Government	\$ 1,284,007	\$ 584,073	\$ 4,480	\$ 107,797	(691,858)	(587,657)
Component units:						
Downtown Development Authority	\$ 36,487	\$ -	\$ 5,000	\$ -		\$ (31,487)
General revenues:						
Property taxes, levied for general purposes					204,728	204,728
Property taxes, levied for fire protection					13,644	13,644
Property taxes, levied for roads and bridges					56,367	56,367
State aid					234,860	234,860
Interest earnings					948	1,129
Miscellaneous					8,692	-
Transfer to DPW Equipment Fund					-	-
Total general revenues and transfers					(61,641)	8,692
Change in net assets					(60,512)	(61,641)
Net assets-beginning					519,239	458,727
Net assets-ending					(172,619)	30,797
					593,503	(128,930)
					\$ 420,884	3,868,075
					\$ 3,318,261	\$ 3,739,145
						\$ (268,723)

The accompanying notes are an integral part of these financial statements.

CITY OF BEAVERTON
GOVERNMENTAL FUND BALANCE SHEET
March 31, 2004

	General Fund	Major Street Fund	Local Street Fund	Gravel Street Debt Service Fund	Gravel Street Capital Project Fund	Total
ASSETS						
Cash and cash equivalents	\$ 142,669	\$ 25,073	\$ 21,680	\$ 19,737	\$ 37,090	\$ 246,249
Accounts receivable, net	6,760	-	-	-	-	6,760
Taxes receivable, net	33,735	-	-	-	-	33,735
Assessment receivable, net	5,628	-	-	138,250	-	143,878
Due from other funds	70,364	-	-	-	-	70,364
Due from other governmental units	-	12,347	4,103	-	-	16,450
Prepaid items	4,969	173	63	-	-	5,205
Total assets	\$ 264,125	\$ 37,593	\$ 25,846	\$ 157,987	\$ 37,090	\$ 522,641
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 7,024	\$ 475	\$ -	\$ -	\$ -	\$ 7,499
Accrued expenses	14,143	219	38	-	-	14,400
Due to other funds	21,019	3,999	6,339	-	-	31,357
Due to other governmental units	8,232	-	-	-	-	8,232
Deposits and other liabilities	18,682	-	-	-	-	18,682
Total liabilities	69,100	4,693	6,377	-	-	80,170
Fund balances:						
Reserved for:						
Prepaid items	4,969	-	-	-	-	4,969
Roads and streets	56,367	-	-	-	-	56,367
Unreserved and undesignated	133,689	32,900	19,469	157,987	37,090	381,135
Total fund balances	195,025	32,900	19,469	157,987	37,090	442,471
Total liabilities and fund balance:	\$ 264,125	\$ 37,593	\$ 25,846	\$ 157,987	\$ 37,090	\$ 522,641

The accompanying notes are an integral part of these financial statements.

CITY OF BEAVERTON
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
March 31, 2004

Total fund balances for governmental funds (Exhibit 4)	\$	442,471
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Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	\$	192,484	
Buildings and improvements, net of \$508,370 accumulated depreciation		243,275	
Equipment, net of \$2,287 accumulated depreciation		12,654	
Total capital assets		448,413	

Long-term liabilities applicable to the Township's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net assets. Balances at March 31, 2004 are:

2002 General Obligation Limited Tax Bonds	\$	(470,000)	(470,000)
Total net assets of governmental activities (Exhibit 2)			\$ 420,884

The accompanying notes are an integral part of these financial statements.

CITY OF BEAVERTON
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES
IN FUND BALANCES
For the Year Ended March 31, 2004

	General Fund	Major Street Fund	Local Street Fund	Gravel Street Debt Service Fund	Gravel Street Capital Project Fund	Total
REVENUES						
Property taxes and related fees	\$ 289,052	\$ -	\$ -	\$ -	\$ -	\$ 289,052
Licenses and permits	1,772	-	-	-	-	1,772
State aid	149,384	60,256	25,220	-	-	234,860
Charges for services	66,208	-	-	-	-	66,208
Interest and dividends	296	151	141	62	298	948
Rents and royalties	10,762	-	-	-	-	10,762
Special assessments, net	-	-	-	-	-	-
Donations	4,480	-	-	(6,506)	-	(6,506)
Miscellaneous	1,445	-	-	-	-	4,480
Total revenues	525,740	60,407	25,361	(6,444)	298	605,362
EXPENDITURES						
General government	200,204	-	-	-	-	200,204
Public safety	122,229	-	-	-	-	122,229
Public works	148,961	56,901	29,719	-	112,743	348,324
Recreation and culture	66,429	-	-	-	-	66,429
Capital outlay	16,086	-	-	-	-	16,086
Debt service	-	-	-	51,463	-	51,463
Total expenditures	553,909	56,901	29,719	51,463	112,743	804,735
Excess (deficiency) of revenues over expenditures	(28,169)	3,506	(4,358)	(57,907)	(112,445)	(199,373)
OTHER FINANCING SOURCES (USES)						
Transfers-in	-	-	28,155	51,463	-	79,618
Transfers-out	-	(28,155)	-	-	(51,463)	(79,618)
Total other financing sources and uses	-	(28,155)	28,155	51,463	(51,463)	-
Net change in fund balances	(28,169)	(24,649)	23,797	(6,444)	(163,908)	(199,373)
Fund balances-beginning	223,194	57,549	(4,328)	164,431	200,998	641,844
Fund balances-ending	\$ 195,025	\$ 32,900	\$ 19,469	\$ 157,987	\$ 37,090	\$ 442,471

The accompanying notes are an integral part of these financial statements

CITY OF BEAVERTON
RECONCILIATION OF THE STATEMENT OF REVENUE,
EXPENDITURES, AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
March 31, 2004

Net change in fund balances - total governmental funds (Exhibit 5)	\$ (199,373)
--	--------------

The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$19,332) exceeded capital outlay (\$16,086) in the current period.	(3,246)
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Debt proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

Debt issued:	\$ -	
Repayments:		
2002 General Obligation Limited Tax Bonds	30,000	30,000
Change in net assets of governmental activities (Exhibit 3)		\$ (172,619)

The accompanying notes are an integral part of these financial statements.

CITY OF BEAVERTON
PROPRIETARY FUND STATEMENT OF NET ASSETS
March 31, 2004

Exhibit 6

	Enterprise Funds				DPW Equipment
	Hydroelectric Fund	Sewer Fund	Water Fund	Total	Internal Service Fund
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 15,620	\$ 121,241	\$ 33,477	\$ 170,338	\$ 3,879
Accounts receivable, net	13,072	49,294	25,463	87,829	-
Due from other funds	3,811	30,256	-	34,067	2,441
Inventory	-	1,136	9,509	10,645	-
Prepaid items	452	722	1,220	2,394	-
Total current assets	32,955	202,649	69,669	305,273	6,320
Noncurrent assets:					
Restricted cash	-	77,500	81,000	158,500	-
Capital assets:					
Land	-	102,115	600	102,715	-
Equipment, net	-	-	499	499	-
Infrastructure, net	498,808	2,676,059	899,731	4,074,598	141,574
Total noncurrent assets	498,808	2,855,674	981,830	4,336,312	141,574
Total assets	531,763	3,058,323	1,051,499	4,641,585	147,894
LIABILITIES					
Liabilities:					
Accounts payable	2,963	2,456	1,070	6,489	141
Accrued expenses	273	1,837	1,628	3,738	120
Due to other funds	29,058	19,699	2,340	51,097	10,814
Capital lease obligation	-	-	-	-	28,415
Bonds and contracts payable	-	15,000	5,000	20,000	15,059
Total current liabilities	32,294	38,992	10,038	81,324	54,549
Noncurrent liabilities					
Bonds and contracts payable	-	1,074,000	168,000	1,242,000	31,896
Total noncurrent liabilities	-	1,074,000	168,000	1,242,000	31,896
Total liabilities	32,294	1,112,992	178,038	1,323,324	86,445
NET ASSETS					
Invested in capital assets, net of related debt	498,808	1,689,174	727,830	2,915,812	94,619
Restricted for debt obligations	-	77,500	81,000	158,500	-
Unrestricted	661	178,657	64,631	243,949	(33,170)
Total net assets	\$ 499,469	\$ 1,945,331	\$ 873,461	\$ 3,318,261	\$ 61,449

The accompanying notes are an integral part of these financial statements.

CTTY OF BEAVERTON
PROPRIETARY FUND STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended March 31, 2004

	Enterprise Funds			DPW Equipment
	Hydroelectric Fund	Sewer Fund	Water Fund	Internal Service Fund
OPERATING REVENUES				
Charges for services	\$ 131,411	\$ 235,914	\$ 131,956	\$ 499,281
Miscellaneous	-	3,149	-	3,149
Total operating revenues	131,411	239,063	131,956	502,430
OPERATING EXPENSES				
Salaries and wages	29,472	46,276	38,465	114,213
Payroll taxes	2,254	3,762	3,176	9,192
Employee benefits	18,150	16,390	7,151	41,691
Supplies	2,445	1,455	4,865	8,765
Postage	-	-	548	548
Contracted services	3,200	3,174	9,647	16,021
Insurance	162	434	462	1,058
Bank fees	310	-	-	310
Telephone and communications	2,969	2,277	726	5,972
Travel, meals and lodging	8	-	43	51
Training	450	-	190	640
Utilities	2,536	20,861	5,111	28,508
Repair and maintenance	6,009	18,426	39,059	63,494
Equipment rental	1,182	2,900	7,719	11,801
Miscellaneous	195	85	952	1,232
Depreciation	36,710	75,338	25,877	137,925
Total operating expenses	106,052	191,378	143,991	441,421
Operating income (loss)	25,359	47,685	(12,035)	61,009
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	239	370	520	1,129
Interest expense	-	(52,852)	(11,753)	(64,605)
Total nonoperating revenue (expenses)	239	(52,482)	(11,233)	(63,476)
Income (loss) before capital grants and transfers	25,598	(4,797)	(23,268)	(2,467)
Capital grants	-	-	107,797	107,797
Transfers in	-	-	-	-
Transfers (out)	-	(86,641)	25,000	(61,641)
Changes in net assets	25,598	(91,438)	109,529	43,689
Total net assets-beginning	473,871	2,036,769	763,932	3,274,572
Total net assets-ending	\$ 499,469	\$ 1,945,331	\$ 873,461	\$ 3,318,261
				\$ 61,449

The accompanying notes are an integral part of these financial statements.

CITY OF BEAVERTON
PROPRIETARY FUND STATEMENT OF CASH FLOWS
For the Year Ended March 31, 2004

	Enterprise Funds				DPW Equipment Internal Service Fund
	Hydroelectric Fund	Sewer Fund	Water Fund	Total	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 125,309	\$ 228,286	\$ 126,285	\$ 479,880	\$ 59,941
Payments to suppliers	(16,189)	(46,631)	(64,404)	(127,224)	(7,460)
Payments to employees	(48,769)	(69,325)	(51,844)	(169,938)	-
Internal activity-payments from (to) other funds	(1,182)	(2,900)	(7,719)	(11,801)	2,441
Other receipts	-	3,149	-	3,149	-
Net cash provided (used) by operating activities	59,169	112,579	2,318	174,066	54,922
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers in	-	-	25,000	25,000	61,641
Transfers (out)	-	(86,641)	-	(86,641)	-
Interfund loans-proceeds and collections	(77,723)	157,739	85,652	165,668	(51,270)
Net cash provided by noncapital financing activities	(77,723)	71,098	110,652	104,027	10,371
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchases and construction of capital assets	-	-	(189,372)	(189,372)	(13,671)
Proceeds from capital grants	-	-	107,797	107,797	-
Principal paid on capital debt	-	(15,000)	(5,000)	(20,000)	(31,716)
Interest paid on capital debt	-	(52,852)	(11,753)	(64,605)	(16,033)
Net cash used by capital and related financing activities	-	(67,852)	(98,328)	(166,180)	(61,420)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest and dividends	239	370	520	1,129	6
Net increase in cash and cash equivalents	(18,315)	116,195	15,162	113,042	3,879
Balances-beginning of the year	33,935	82,546	99,315	215,796	-
Balances-end of the year	\$ 15,620	\$ 198,741	\$ 114,477	\$ 328,838	\$ 3,879
Displayed as:					
Cash and cash equivalents	\$ 15,620	\$ 121,241	\$ 33,477	\$ 170,338	\$ 3,879
Restricted cash	-	77,500	81,000	158,500	-
	\$ 15,620	\$ 198,741	\$ 114,477	\$ 328,838	\$ 3,879
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ 25,359	\$ 47,685	\$ (12,035)	\$ 61,009	\$ 15,835
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	36,710	75,338	25,877	137,925	38,826
Change in assets and liabilities:					
Receivables, net	(6,102)	(7,628)	(5,671)	(19,401)	-
Inventory	-	220	220	440	-
Prepaid items	1,089	(722)	(1,220)	(853)	-
Accounts payable	2,095	583	(1,801)	877	141
Accrued expenses	18	(2,897)	(3,052)	(5,931)	120
Net cash provided (used) by operating activities	\$ 59,169	\$ 112,579	\$ 2,318	\$ 174,066	\$ 54,922

The accompanying notes are an integral part of these financial statements.

CITY OF BEAVERTON
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
CURRENT TAX FUND
March 31, 2004

ASSETS

Cash and cash equivalents

Total assets

\$	32,970
	<hr/>
	32,970
	<hr/>

LIABILITIES

Due to other governmental units

Due to other funds

Total liabilities

20,834

12,136

32,970

NET ASSETS

\$	-
	<hr/>
	<hr/>

The accompanying notes are an integral part of these financial statements.

**CITY OF BEAVERTON
GLADWIN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
March 31, 2004**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

A. Reporting Entity

The City is governed by an elected seven-member council. The accompanying financial statements present the City and its component unit, an entity for which the government is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

Discretely Presented Component Unit

The following component unit is reported within the "component unit" column in the combined financial statements. The discretely presented component unit is an entity that is legally separate from the City, but for which the unit is financially accountable, or its relationship with the City is such that exclusion would cause the units financial statements to be misleading or incomplete.

Downtown Development Authority—The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority's governing body, which consists of five individuals, is selected by the City Council. In addition, the Authority's budget is approved by the City Council. The Authority does not issue separate financial statements. Detail information can be obtained by contracting the City Clerk.

Related Organization

Fire Protection District—The City in conjunction with Beaverton and Tobacco Townships entered into an agreement to create the Beaverton Area Fire Protection District. The Fire Protection District is a legally separate organization established to provide fire protection services to the three communities.

**CITY OF BEAVERTON
GLADWIN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
March 31, 2004**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contribution that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**CITY OF BEAVERTON
GLADWIN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
March 31, 2004**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgements are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual—that is, when they become both measurable and available to finance expenditures of the fiscal period. Revenue susceptible to accrual include property taxes, state revenue sharing and interest.

The City property tax is levied each December 1st on the taxable valuation of property (as defined by State statutes) located in the City as of the preceding December 31st.

The 2003 taxable valuation of the City totaled \$16.2 million, on which ad valorem taxes levied consisted of 14.6 mills for City operating purpose, 1.9967 mills for roads, .9733 mills for fire protection, and 2.0219 mills for county roads and bridges. These amounts are recognized in the General Fund as property taxes and related fees.

The government reports the following major funds:

The General Fund is the governments primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for the receipt and expenditures of State motor fuel taxes which are earmarked by law for major street and highway purposes.

The Local Street Fund is used to account for the receipt and expenditure of State motor fuel taxes which are earmarked by law for local street and highway purposes.

**CITY OF BEAVERTON
GLADWIN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
March 31, 2004**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

The government reports the following major proprietary funds:

The Hydroelectric Fund is used to record the revenues and expenses for the operation of a hydroelectric system. Capital assets are recorded within the fund and depreciation is charged.

The Sewer Fund is used to record the revenues and expenses for the operation of a sewer system. Capital assets are recorded within the fund and depreciation is charged.

The Water Fund is used to record the revenues and expenses for the operation of a water system. Capital assets are recorded within the fund and depreciation is charged.

Additionally, the government reports the following fund type:

The DPW Equipment Fund is an internal service fund, which accounts for major machinery and equipment purchases and maintenance to provide services to other departments of the government on a cost reimbursement basis.

The Current Tax Collection Fund is used to account for resources held by the City in a purely custodial capacity. Money in this fund is from current tax and special assessment collections. Timely distribution to the appropriate fund and local unit must be made in accordance with Section 43 of the General Property Tax Act.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected to also follow private-sector standards issued after November 30, 1989 for its business-type activities.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

**CITY OF BEAVERTON
GLADWIN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
March 31, 2004**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation
(Continued)**

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering foods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for sales and services. The sewer and water funds also recognizes the portion of tap fees intended to recover current costs as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

D. Assets, Liabilities, and Net Assets

Bank Deposits and Investments—Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables—In general, outstanding balances between funds are reported as “due to/from other funds. Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds.

All trade and property tax receivables are shown net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items—Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect cost applicable to future years and are recorded as prepaid items in the government-wide and fund statements.

Restricted Assets—The revenue bonds of the enterprise funds require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets.

**CITY OF BEAVERTON
GLADWIN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
March 31, 2004**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Assets

Capital Assets—Capital assets, which include property, plant, equipment and infrastructure assets are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 (unless a the asset is a computer or a firearm) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred, if any, during the construction of capital assets of business-type activities is included in the capitalized value of the assets constructed.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building improvements	15 to 30 years
Sewer and water systems	50 to 75 years
Office equipment	5 to 10 years
Computer equipment	3 to 5 years

Compensated Absences (Vacation and Sick Leave)—It is the City's policy to permit employees to accumulate earned but unused personal days and vacation benefits. All vacation and personal day pay is accrued when incurred in the government-wide financial statements.

Long-Term Obligations—In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**CITY OF BEAVERTON
GLADWIN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
March 31, 2004**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Assets

Fund Equity—In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations, if any, of fund balance represent tentative management plans that are subject to change.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information—Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the debt service funds. All annual appropriations lapse at fiscal year end. The budget document presents information by fund, function, department or activity, and line items. The legal level of budgetary control adopted by the governing body is the department or activity level.

Excess of Expenditures Over Appropriations in Budgeted Funds—During the year, the City incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

<u>Budgeted Item</u>	<u>Budget Appropriation</u>	<u>Actual Expenditure</u>
General Fund—Treasurer	\$ 23,315	\$ 23,653
General Fund—Assessing	9,120	9,277
General Fund—Finance and Administration	60,543	62,533
General Fund—Police Department	28,141	29,028
General Fund—Parks and Recreation	61,659	66,429
General Fund—Capital Outlay	10,496	16,086
Major Street Fund—Expenditures	42,100	56,901
Major Street Fund—Transfers-out	18,000	28,155

**CITY OF BEAVERTON
GLADWIN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
March 31, 2004**

NOTE 3. DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the City to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The City is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers acceptances of United States banks' commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The City Council has designated three banks for the deposit of City funds. The investment policy adopted by the council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and certificates of deposit, but not the remainder of State statutory as listed above.

The City's deposits and investment policy are in accordance with statutory authority.

At year-end, the City's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-Type Funds	Fiduciary Funds	Total Primary Government	Component Unit
Cash and cash equivalents	\$ 246,249	\$ 170,338	\$ 32,970	\$ 449,557	\$ 60,298
Restricted assets	-	158,500	-	158,500	-
Total	<u>\$ 246,249</u>	<u>\$ 328,838</u>	<u>\$ 32,970</u>	<u>\$ 608,057</u>	<u>\$ 60,298</u>

The breakdown between deposits and investments is as follows:

	Primary Government	Component Unit
Bank Deposits (checking and savings, certificate of deposit)	\$ 607,957	\$ 60,298
Petty Cash and Cash on Hand	100	-
Total	<u>\$ 608,057</u>	<u>\$ 60,298</u>

**CITY OF BEAVERTON
GLADWIN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
March 31, 2004**

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

The bank balance of the primary government deposits is \$621,511, of which \$168,135 is covered by federal deposit insurance. The component unit's deposit had a bank balance of \$61,391 all of which is covered by federal deposit insurance.

NOTE 4. CAPITAL ASSETS

Capital asset activity of the primary government for the current year was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated				
Land	\$ 192,484	\$ -	\$ -	\$ 192,484
Capital Assets Being Depreciated				
Buildings and Improvements	750,500	1,145	-	751,645
Equipment - Police Department	-	10,441	-	10,441
Other Capital Assets	-	4,500	-	4,500
Subtotal	750,500	16,086	-	766,586
Less Accumulated Depreciation for				
Buildings and Improvements	491,325	17,045	-	508,370
Equipment - Police Department	-	787	-	787
Other Capital Assets	-	1,500	-	1,500
Subtotal	491,325	19,332	-	510,657
Net Capital Assets Being Depreciated	259,175	(3,246)	-	255,929
Governmental Activities Capital Assets-Net of Depreciation	<u>\$ 451,659</u>	<u>\$ (3,246)</u>	<u>\$ -</u>	<u>\$ 448,413</u>

**CITY OF BEAVERTON
GLADWIN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
March 31, 2004**

NOTE 4. CAPITAL ASSETS (Continued)

Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated				
Land	\$ 102,715	\$ -	\$ -	\$ 102,715
Capital Assets Being Depreciated				
Equipment	-	526	-	526
Infrastructure	5,552,735	188,846	-	5,741,581
Subtotal	5,552,735	189,372	-	5,742,107
Less Accumulated Depreciation for				
Equipment	-	27	-	27
Infrastructure	1,529,085	137,898	-	1,666,983
Subtotal	1,529,085	137,925	-	1,667,010
Net Capital Assets Being Depreciated	4,023,650	51,447	-	4,075,097
Business-Type Activities Capital Assets-Net of Depreciation	\$ 4,126,365	\$ 51,447	\$ -	\$ 4,177,812

Depreciation expense was charged to programs of the City as follows:

Governmental Activities	
General Government	\$ 4,450
Public Safety	787
Public Works	10,650
Recreation and Culture	3,445
Total Governmental Activities	<u>\$ 19,332</u>
Business-Type Activities	
Hydroelectric	\$ 36,710
Sewer	75,338
Water	25,877
Total Business-Type Activities	<u>\$ 137,925</u>

**CITY OF BEAVERTON
GLADWIN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
March 31, 2004**

NOTE 5. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances is as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	\$ 70,364	General	\$ 21,019
Hydroelectric	3,811	Major Street	3,999
Sewer	30,256	Local Street	6,339
Internal Service	2,441	DDA	1,468
		Hydroelectrical	29,058
		Sewer	19,699
		Water	2,340
		Internal Service	10,814
		Tax Collection	12,136
Total	<u>\$ 106,872</u>	Total	<u>\$ 106,872</u>

Interfund Transfers

<u>Fund</u>	<u>Transfers Out</u>	<u>Fund</u>	<u>Transfers In</u>
General	\$ 28,155	Local Street	\$ 28,155
Capital Project	51,463	Debt Service	51,463
Sewer	25,000	Water	25,000
DDA	33,076	DDA Debt Service	33,076
Total	<u>\$ 137,694</u>	Total	<u>\$ 137,694</u>

**CITY OF BEAVERTON
GLADWIN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
March 31, 2004**

NOTE 6. LEASES

Capital Lease—The City has entered into a lease agreement as lessee for financing the purchase of street sweeping equipment. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the net present value of the future minimum lease payments as of the inception date. The future minimum lease obligations and the net present value is as follows:

<u>Year Ended March 31,</u>	
2005	\$ 20,239
2006	10,119
Total Minimum Lease Payments	30,358
Less: Amount Representing Interest	1,943
Net Present Value	<u>\$ 28,415</u>

NOTE 7. LONG-TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties that directly benefitted from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the government is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

**CITY OF BEAVERTON
GLADWIN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
March 31, 2004**

NOTE 7. LONG-TERM DEBT (Continued)

Bond and contractual agreements can be summarized as follows:

	<u>Interest Rate</u>	<u>Principal Matures</u>	<u>Beginning Balance</u>	<u>Additions (Reductions)</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities						
General Obligation Bonds						
2002 Gravel Street	3.65 to 4.90%	April 2017	<u>\$ 500,000</u>	<u>\$ (30,000)</u>	<u>\$ 470,000</u>	<u>\$ 30,000</u>
Business-Type Activities						
Revenue Bonds						
1981 Water Line	5.00%	March 2022	\$ 72,000	\$ (2,000)	\$ 70,000	\$ 2,000
1984 Water Line	7.125%	March 2022	106,000	(3,000)	103,000	3,000
1992 Wastewater Plant	5.00%	March 2032	<u>1,104,000</u>	<u>(15,000)</u>	<u>1,089,000</u>	<u>15,000</u>
			<u>\$ 1,282,000</u>	<u>\$ (20,000)</u>	<u>\$ 1,262,000</u>	<u>\$ 20,000</u>
Internal Service Fund						
Purchase Contract						
2002 Truck	3.90%	March 2007	<u>\$ 61,455</u>	<u>\$ (14,500)</u>	<u>\$ 46,955</u>	<u>\$ 15,059</u>
Component Unit						
General Obligation Bonds						
2001 DDA Streetscape	4.558%	December 2016	<u>\$ 340,000</u>	<u>\$ (10,000)</u>	<u>\$ 330,000</u>	<u>\$ 15,000</u>

Scheduled principal maturities of long-term debt for years subsequent to March 31, 2004 are as follows:

<u>Year Ending March 31</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Internal Service Fund</u>	<u>Component Unit</u>
2005	\$ 30,000	\$ 20,000	\$ 15,059	\$ 15,000
2006	30,000	20,000	15,646	15,000
2007	30,000	20,000	16,250	20,000
2008	30,000	20,000	-	20,000
2009	30,000	20,000	-	20,000
Thereafter	320,000	1,162,000	-	240,000
Total	<u>\$ 470,000</u>	<u>\$ 1,262,000</u>	<u>\$ 46,955</u>	<u>\$ 330,000</u>

Interest expense for the year totaled \$117,113.

**CITY OF BEAVERTON
GLADWIN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
March 31, 2004**

NOTE 8. SEGMENT INFORMATION

The City issued revenue bonds to finance water and sewer system improvements. Summary financial information for the sewer and water departments are presented below:

Condensed Statement of Net Assets:

	Sewer	Water
Assets		
Current Assets	\$ 172,393	\$ 69,669
Due From Other Funds	30,256	-
Restricted Assets	77,500	81,000
Capital Assets	2,778,174	900,830
Total Assets	3,058,323	1,051,499
Liabilities		
Current Liabilities	4,293	2,698
Due to Other Funds	19,699	2,340
Noncurrent Liabilities	1,089,000	173,000
Total Liabilities	1,112,992	178,038
Net Assets		
Invested in Capital Assets	1,689,174	727,830
Restricted	62,930	43,321
Unrestricted	193,227	102,310
Total Net Assets	\$ 1,945,331	\$ 873,461

**CITY OF BEAVERTON
GLADWIN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
March 31, 2004**

NOTE 8. SEGMENT INFORMATION (Continued)

Condensed Statement of Revenue, Expenses, and Changes in Net Assets:

	Sewer	Water
Operating Revenues	\$ 239,063	\$ 131,956
Depreciation Expense	75,338	25,877
Other Operating Expenses	116,040	118,114
Operating Income (Loss)	47,685	(12,035)
Nonoperating Revenue (Expense)		
Investment Earnings	370	520
Interest Expense	(52,852)	(11,753)
Capital Grants	-	107,797
Transfers	(86,641)	25,000
Change in Net Assets	(91,438)	109,529
Beginning Net Assets	2,036,769	763,932
Total Net Assets	<u>\$ 1,945,331</u>	<u>\$ 873,461</u>

Condensed Statement of Cash Flows:

	Sewer	Water
Net Cash Provided by (Used in)		
Operating Activities	\$ 112,579	\$ 2,318
Noncapital Financing Activities	71,098	110,652
Capital and Related Financing Activities	(67,852)	(98,328)
Investing Activities	370	520
Net Increase	116,195	15,162
Beginning Cash and Cash Equivalents	82,546	99,315
Ending Cash and Cash Equivalents	<u>\$ 198,741</u>	<u>\$ 114,477</u>

**CITY OF BEAVERTON
GLADWIN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
March 31, 2004**

NOTE 9. RESTRICTED ASSETS

The balances of the restricted asset accounts in the enterprise funds are as follows:

	<u>Sewer</u>	<u>Water</u>
Operating Activities		
Improvement and Replacement Account	\$ -	\$ 21,000
Bond Reserve	77,500	60,000
Total Restricted Assets	<u>\$ 77,500</u>	<u>\$ 81,000</u>

NOTE 10. RISK MANAGEMENT

The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers compensation). The City has purchased commercial insurance for these types of claims. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 11. PENSION PLAN

The City has a contributory Individual Retirement Account annuity plan covering union employees, who are full-time, age twenty-one and over, and employed with the City for at least one year. The City's policy is to contribute 7.5 percent of the annual salaries of covered employees into this plan. The City's pension expense for the year ended March 31, 2004, was \$10,515.

The City also has a Money Plan and Trust plan for all full-time, administrative employees. The City's policy is to contribute 7.5 percent of the annual salaries of covered employees into this plan. The City's expense under this plan for the year ended March 31, 2004, was \$1,724.

NOTE 12. DEFERRED COMPENSATION PLAN

The City offers for all its full-time employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans are held in trust, as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (City) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the City's financial statements.

**CITY OF BEAVERTON
GLADWIN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
March 31, 2004**

NOTE 12. DEFERRED COMPENSATION PLAN (Continued)

A summary of the plan's investment activity for the year ended March 31, 2004, follows:

Balance - April 1, 2003	\$ 4,909
Employer Contributions	3,852
Current Withdrawals	0
Interest and Market Gains	1,192
Adjustments/Fees	0
Balance - March 31, 2004	<u>\$ 9,953</u>

NOTE 13. IMPLEMENTATION OF NEW ACCOUNTING STANDARD

As of and for the year ended March 31, 2004, the City implemented GASB Statement Number 34 - *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The more significant changes required by the standard include a Management Discussion and Analysis; government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting; fund financial statements, consisting of a series of statements that focus on a governments' major funds; and schedules to reconcile the fund financial statements to the government-wide financial statements.

Management has elected to utilize the transition option in the implementation of GASB No. 34 and plans to capitalize the value of its network of streets as an infrastructure asset in its March 31, 2005 financial statements.

CITY OF BEAVERTON
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended March 31, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes and related fees	\$ 310,200	\$ 282,100	\$ 289,052	\$ 6,952
Licenses and permits	1,500	1,770	1,772	2
State aid	154,000	149,500	149,384	(116)
Charges for services	71,640	65,900	66,208	308
Interest and dividends	2,000	250	296	46
Rents and royalties	4,500	8,500	10,762	2,262
Fines and forfeits	6,000	2,200	2,341	141
Special assessments	-	5,600	-	(5,600)
Donations	-	-	4,480	4,480
Miscellaneous	-	1,500	1,445	(55)
Total revenues	549,840	517,320	525,740	8,420
EXPENDITURES				
General Government:				
City council	\$ 6,300	\$ 10,540	\$ 10,156	\$ 384
City manager	68,400	47,617	40,105	7,512
Treasurer	26,850	23,315	23,653	(338)
Assessing	8,000	9,120	9,277	(157)
Clerk	11,800	6,432	6,377	55
Elections	3,200	6,975	6,667	308
Board of review	600	710	665	45
Cemetery	7,000	8,660	8,410	250
Buildings and grounds	40,200	24,050	23,822	228
Finance and administration	47,190	60,543	62,533	(1,990)
All other general government	4,000	8,600	8,539	61
Public Safety:				
Fire protection contract	13,000	19,362	19,362	-
Police protection contract	98,800	74,000	73,839	161
Police department	-	28,141	29,028	(887)
Public Works:				
Public works	117,800	106,625	103,524	3,101
Highways and streets	4,000	275	251	24
Garbage collection	34,000	32,000	31,921	79
Street lights	15,000	14,500	13,265	1,235
Community Development:				
Planning commission	4,000	-	-	-
Recreation and Culture:				
Parks and recreation	76,000	61,659	66,429	(4,770)
Capital Outlay:				
General government	7,000	10,496	16,086	(5,590)
Total expenditures	593,140	553,620	553,909	(289)
Deficiency of revenues over expenditures	(43,300)	(36,300)	(28,169)	8,131
OTHER FINANCING SOURCES (USES)				
Transfers-in	43,000	35,800	-	(35,800)
Total other financing sources and uses	43,000	35,800	-	(35,800)
Net change in fund balances	(300)	(500)	(28,169)	(27,669)
Fund balances-beginning	223,194	223,194	223,194	-
Fund balances-ending	\$ 222,894	\$ 222,694	\$ 195,025	\$ (27,669)

CITY OF BEAVERTON
BUDGETARY COMPARISON SCHEDULE
MAJOR STREET
For the Year Ended March 31, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
State aid	\$ 51,000	\$ 60,000	\$ 60,256	\$ 256
Interest and dividends	500	300	151	(149)
Total revenues	<u>51,500</u>	<u>60,300</u>	<u>60,407</u>	<u>107</u>
EXPENDITURES				
Salaries and wages	\$ 6,100	\$ 9,000	\$ 8,575	\$ 425
Payroll taxes	650	690	668	22
Employee benefits	1,200	1,600	1,657	(57)
Supplies	4,000	1,100	1,085	15
Contracted services	73,000	16,500	20,258	(3,758)
Insurance	700	200	113	87
Engineering costs	-	-	9,149	(9,149)
Equipment rental	10,000	12,210	14,612	(2,402)
Miscellaneous	350	800	784	16
Total expenditures	<u>96,000</u>	<u>42,100</u>	<u>56,901</u>	<u>(14,801)</u>
Deficiency of revenues over expenditures	<u>(44,500)</u>	<u>18,200</u>	<u>3,506</u>	<u>(14,694)</u>
OTHER FINANCING SOURCES (USES)				
Transfers-in	45,000	-	-	-
Transfers-out	-	(18,000)	(28,155)	(10,155)
Total other financing sources and uses	<u>45,000</u>	<u>(18,000)</u>	<u>(28,155)</u>	<u>(10,155)</u>
Net change in fund balances	<u>500</u>	<u>200</u>	<u>(24,649)</u>	<u>(24,849)</u>
Fund balances-beginning	<u>57,549</u>	<u>57,549</u>	<u>57,549</u>	<u>-</u>
Fund balances-ending	<u>\$ 58,049</u>	<u>\$ 57,749</u>	<u>\$ 32,900</u>	<u>\$ (24,849)</u>

CITY OF BEAVERTON
BUDGETARY COMPARISON SCHEDULE
LOCAL STREET
For the Year Ended March 31, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
State aid	\$ 18,000	\$ 16,000	\$ 25,220	\$ 9,220
Interest and dividends	1,000	200	141	(59)
Total revenues	19,000	16,200	25,361	9,161
EXPENDITURES				
Salaries and wages	\$ 7,500	\$ 8,450	\$ 3,997	\$ 4,453
Payroll taxes	3,000	500	303	197
Employee benefits	900	700	837	(137)
Supplies	7,000	2,600	2,456	144
Contracted services	7,000	14,300	7,905	6,395
Insurance	200	150	143	7
Engineering costs	-	-	1,364	(1,364)
Equipment rental	3,500	9,000	12,227	(3,227)
Miscellaneous	-	500	487	13
Total expenditures	29,100	36,200	29,719	6,481
Deficiency of revenues over expenditures	(10,100)	(20,000)	(4,358)	15,642
OTHER FINANCING SOURCES (USES)				
Transfers-in	10,100	-	28,155	28,155
Total other financing sources and uses	10,100	-	28,155	28,155
Net change in fund balances	-	(20,000)	23,797	43,797
Fund balance (deficit) beginning	(4,328)	(4,328)	(4,328)	-
Fund balances-ending	\$ (4,328)	\$ (24,328)	\$ 19,469	\$ 43,797

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS***

To the City Council
City of Beaverton
Gladwin County, Michigan

We have audited the financial statements for the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Beaverton, Gladwin County, Michigan, as of and for the year ended March 31, 2004, which collectively comprise the City of Beaverton, Gladwin County, Michigan's basic financial statements, and have issued our report thereon dated July 15, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Beaverton's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material affect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings and questioned costs.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Beaverton internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weakness. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the City of Beaverton in a separate letter dated July 15, 2004.

This report is intended for the information of the City Council, management, the State of Michigan, and GMAC Commercial Mortgage Corporation and is not intended to be and should not be used by anyone other than these specified parties. However, this document is a public record and its distribution is not limited.

Burnside & Jorgensen.

Midland, Michigan
July 15, 2004

**CITY OF BEAVERTON
GLADWIN COUNTY, MICHIGAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended March 31, 2004**

COMPLIANCE

Appropriations in Budgetary Funds

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. We noted during our audit that the City had incurred expenditures in excess of the amount appropriated in various activity centers of the General Fund and the Major Street Fund.

Periodic Financial Reports

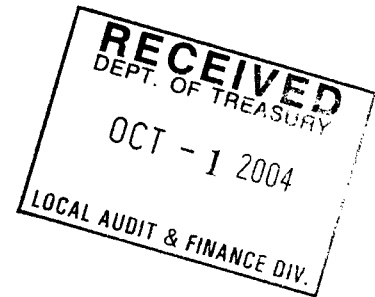
As prescribed in the *Uniform Accounting Procedures Manual*, the State of Michigan requires the City Treasurer provide periodic financial reports to the City Council. The Treasurer does not provide the required reports to assist Council in their oversight of the City's finances.

MANAGEMENT'S RESPONSE

Management of the City will address the above issues by more closely monitoring the budget to actual expenses in all funds and having the City Council approve an appropriate budget amendment when necessary, and by developing the required reports for the Treasurer's presentation to the City Council on a regular basis.

July 15, 2004

Members of the City Council
City of Beaverton
Gladwin County, Michigan



Dear Council Members:

In planning and performing our audit of the financial statements of the City of Beaverton, for the year ended March 31, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that we believe to be material weaknesses.

REPORTABLE CONDITIONS

Periodic Financial Reports

As described in the *Uniform Accounting Procedures Manual* for Counties and Local Units of Government in Michigan, legislative bodies must be provided periodic financial reports from the Treasurer. The required periodic reports and suggested frequency should include the following:

- Summary report of cash activity by fund (monthly).
- Summary report of cash activity by bank account, certificate of deposit and investment account (monthly).

The Treasurer has not been providing City Council with the required reports. These reports will assist the council in determining the sufficiency of the cash balances to meet the needs of the current period and whether there is sufficient cash available to cover unforeseen expenditure, etc. We recommend the Treasurer develop the two reports and begin presenting them to the City Council on a monthly basis.

Appropriations in Budgetary Funds

P.A. 2 of 1968, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. We noted during our audit that the City had incurred expenditures in excess of the amount appropriated in activity centers of the General Fund and the Major Street Fund.

We recommend the modified accrual basis of accounting be considered when adopting the budget. The budget should be amended during the year to reflect expenditures expected to be made in excess of the original budget amounts. These amendments must be approved by the City Council and documented in the Council minutes. This will help prevent the City from incurring expenditures in excess of appropriations.

OTHER MATTERS

The following items, although not considered reportable conditions, are matters we believe worthy of your consideration.

Recording of Compensated Absences

The City Clerk does not use the City's payroll software to maintain compensated absences records (vacation and sick time). Currently this information is recorded on handwritten ledgers. We recommend the City Clerk utilize the payroll system to maintain this information to improve efficiencies in the financial reporting process.

Cash Receipts Recording

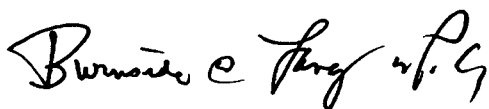
The City purchased a cash receipts program during the year to assist the City Treasurer in recording the City's cash receipts and to integrate this information with the general ledger. This program was still not operational when we concluded our audit fieldwork in mid July. We recommend the City Treasurer complete the installation of this computer software and discontinue using the manual ledgers currently in use.

Conclusion

These conditions were considered in determining the nature, timing, and extent of the audit tests applied on our audit of the March 31, 2004, financial statements, and this report does not affect our report on those financial statements dated July 15, 2004. We have not considered internal control since the date of our report.

This report is intended for the information of the members of the City Council, management and the State of Michigan, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,



BURNSIDE & LANG, P.C.